

Message Text

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OMB-01 AEC-11 DODE-00 FEAE-00 FPC-01 H-03 INT-08 L-03

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FM AMEMBASSY BRUSSELS

TO SECSTATE WASHDC IMMEDIATE 1051

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OECD PLS PASS DEP ASST SECY KATZ

E.O. 11652: N/A

TAGS: ENRG

SUBJECT: ENERGY COORDINATION GROUP: CHAIRMAN'S COMMENTS
FOR JUNE 17-18 MEETING IN BRUSSELS

FOLLOWING IS FULL TEXT OF DOCUMENT ECG/43 (BIS) /PROV CON-
TAINING ECG CHAIRMAN DAVIGNON'S SUGGESTIONS FOR JUNE 17 -
18 BRUSSELS MEETING. DOCUMENT WAS DISTRIBUTED TO ECG
EMBASSIES ON JUNE 10. TWO COPIES HAVE BEEN SENT COMMERCIAL
AIR ADDRESSED TO STEPHEN BOSWORTH EB/FSE.

ENERGY COORDINATION GROUP
PALAIS D'SEGMONT - BRUSSELS
PRESIDENT'S COMMENTS

GENERAL REMARKS (INFORMAL EMBASSY TRANSLATION): THE PURPOSE
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OF THE MEETING MUST BE TO DETERMINE IF THE PARTICIPANTS

AGREE ON THE ELEMENTS NECESSARY FOR MEANINGFUL COOPERATION ON CERTAIN VITAL QUESTIONS. THIS COOPERATION MUST, IT WOULD APPEAR, INCLUDE AT LEAST:

(A) A SYSTEM FOR DISTRIBUTION OF PETROLEUM IN CASE OF AN EMERGENCY, WHICH IMPLIES THE IMMEDIATE ADOPTION OF A NUMBER OF MEASURES.

(B) THE ADOPTION OF A UNIFORM POLICY TOWARDS THE PETROLEUM COMPANIES.

(C) AGREEMENT ON THE GENERAL PRINCIPLES OF A COORDINATED ATTITUDE WHICH MUST BE ADOPTED TOWARDS THE PRODUCING COUNTRIES.

IT IS A QUESTION OF A MINIMUM "PACKAGE" TO WHICH CAN BE ADDED ELEMENTS FROM THE WORK IN PROGRESS ON R&D, URANIUM ENRICHMENT AND MONETARY AND ECONOMIC PROBLEMS.

POINT 1: (INFORMAL EMBASSY TRANSLATION): THE DISTRIBUTION OF PETROLEUM IN EMERGENCY SITUATIONS, TAKING ACCOUNT OF THE WORK OF THE THREE AD HOC OECD GROUPS:

(1) CAN THE GROUP COME TO AGREEMENT ON THE PRINCIPLE THAT, IN EMERGENCY SITUATIONS, ALL OF THE ENERGY WHICH THE TWELVE HAVE AT THEIR DISPOSITION, EXCEPT FOR STOCKS, CAN BE MADE AVAILABLE FOR REDISTRIBUTION? (SEE OECD AD HOC GROUP REPORT DIE/E/PE/73135, FIRST REVISION, #30).

(2) MIGHT IT NOT BE USEFUL TO FACILITATE DISCUSSION, TO REVIEW EACH OF THE THREE TYPES OF POSSIBLE SITUATIONS, WITH THEIR IMPLICATIONS (SEE REPORT #56).

(AL THE NORMAL SITUATION: WHAT ARE, FROM THE POINT OF VIEW OF THE GROUP, THE DIFFERENT DISPOSITIONS TO BE TAKEN IN EACH HYPOTHETICAL SITUATION, AND SPECIFICALLY DO THEY RECOMMEND:

--EXCHANGE OF INFORMATION BETWEEN THE PARTICIPATING COUNTRIES;

--ARRANGEMENTS FOR EVALUATING THIS INFORMATION;
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--A MECHANISM FOR RATIONAL UTILIZATION OF ENERGY;
--CREATION OF STOCKS OR ARRANGEMENTS FOR RAPID SUBSTITUTION OF ENERGY SOURCES WHERE POSSIBLE;
--PREPARATION OF STAND-BY ACTIONS;
--DEVELOPMENT OF OTHER SOURCES OF ENERGY.

IS THE GROUP READY NOW TO AGREE TO SHARE THE INHERENT RISKS OF INVESTMENT IN THE PRODUCTION OF EXPENSIVE ENERGY, PARTICULARLY SINCE IT IS A QUESTION OF VERY LONG TERM?

(B) IS THE GROUP READY TO CONSIDER THAT THERE MAY EXIST "GRAY AREAS", EITHER DURING PERIODS OF TENSION PRIOR TO A CRISIS, OR DURING PERIODS IMMEDIATELY FOLLOWING A CRISIS? WHAT ARE THE MEASURES TO BE TAKEN IN THOSE SITUATIONS?

(C) CRISIS SITUATIONS PROPER: ON THIS SUBJECT, THE GROUP WOULD NO DOUBT WISH TO EXAMINE AND DISCUSS THE FOLLOWING QUESTIONS:

--TRIGGER MECHANISM: WHAT ARE THE PRECISE CRITERIA WHICH WILL INITIATE AN EMERGENCY PROCEDURE AND HOW CAN IT BE GIVEN AN AUTOMATICITY SUCH THAT IT CAN BECOME OPERATIVE WITHOUT THE INITIATION OF NEW POLICAL DISCUSSION AS SOON AS THESE CRITERIA APPEAR? (SEE REPORTS #67 TO 69).

--WHAT IS THE FORMULA FOR RETAINED SHARES? (SEE REPORTS 34 TO 49).

--IS THERE A WAY TO DETERMINE FROM THE BEGINNING AN ARBITRARY PERCENTAGE OF DEMAND RESTRAINT WHICH COULD BE LATER ADJUSTED, BY SOME ACCEPTABLE METHOD, AS THE SITUATION EVOLVES?

--HOW TO ENSURE PROPER MANAGEMENT OF THE CRISIS? HOW TO INVOLVE PRIVATE INDUSTRY? (SEE REPORTS 64 TO 66). WHAT ARRANGEMENTS MUST BE MADE TO ENSURE THAT THE PARTICIPANTS FULFILL THEIR ENGAGEMENTS; TO CENTRALIZE INFORMATION AND TO MAKE THE ADDITIONAL POLITICAL DECISIONS WHICH MIGHT BECOME NECESSARY?

REMARKS: (INFORMAL EMBASSY TRANSLATION): IN ALL OF THE PRECEDING, THE WORKING HYPOTHESES IS THAT THE PARTICIPANTS WILL FIND THEMSELVES FACED BY A CRISIS RESULTING FROM A SHORTAGE IN SUPPLY. IS THE GROUP IN A POSITION NOW TO IDENTIFY OTHER POSSIBLE TYPES OF CRISES FOR WHICH THE CONCEPT OF A TRIGGER MECHANISM WOULD NOT BE APPROPRIATE? LIMITED OFFICIAL USE

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POINT II: (ORIGINAL IN ENGLISH)

ROLE OF THE INTERNATIONAL OIL COMPANIES:

CONSUMER GOVERNMENTS WILL NEED TO PLAY A RATHER MORE ACTIVE ROLE IN RELATION TO THE OIL INDUSTRY THAT IN THE PAST. ACTIONS, WHICH ARE PROPOSED, WILL BE COMPATIBLE WITH THE CONCEPTION THAT THE INTERNATIONAL COMPANIES WILL CONTINUE TO PLAY AN IMPORTANT ROLE IN THE OIL INDUSTRY. THOSE

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ACTIONS ARE THE FOLLOWING ONES:

(A) ESTABLISHMENT OF A FRAMEWORK FOR CONSULTATION AND
COOPERATION BETWEEN CONSUMER GOVERNMENTS AND OIL
COMPANIES:

(1) ESTABLISHMENT OF A PERMANENT FORUM FOR A DIALOGUE
ON ALL IMPORTANT ASPECTS OF THE INTERNATIONAL OIL INDUSTRY;

(2) INTERNATIONAL INFORMATION SYSTEM, WHICH WILL PROVIDE
A GREATER TRANSPARENCY OF THE MARKET AND SHOULD BE A
FIRST PHASE OF A DEVELOPED INFORMATION SYSTEM IN TIME
OF EMERGENCY. THE ECG WOULD DISCUSS THE QUESTION WHETHER
THIS SYSTEM WOULD BE PREPARED AND IMPLEMENTED BY A
SPECIAL GROUP WITHIN THE OECD OR BY THE ECG.

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(3) EMERGENCY MEASURES, INCLUDING PRECISE INDICATIONS CONCERNING THE ROLE OF OIL COMPANIES SHOULD BE ADOPTED BY GOVERNMENTS.

(B) RELATIONS WITH PRODUCER GOVERNMENTS:
THE WASHINGTON ENERGY CONFERENCE HAS ENVISAGED THE ORGANIZATION OF A DIALOGUE BETWEEN CONSUMER AND PRODUCER GOVERNMENTS. THE TOPICS ENVISAGED FOR SUCH A CONFERENCE SHOULD INCLUDE MEASURES FOR ENSURING CONSUMING COUNTRIES AND NON-INTEGRATED COMPANIES REASONABLE CERTAINTY TO SECURE OIL AT PRICE CONDITIONS NOT UNDULY DISSIMILAR FROM THOSE OF THE INTERNATIONAL OIL COMPANIES.

(C) PROBLEMS WHICH SHOULD BE EXAMINED IN FOLLOW-UP MECHANISM:

(1) RELATION BETWEEN BILATERAL DEALS AND ARRANGEMENTS BETWEEN INTERNATIONAL COMPANIES WITH PRODUCER COUNTRIES. THE ECG SHOULD EXAMINE THE POSSIBILITY OF SETTING GUIDE LINES BOTH FOR BILATERAL DEALS AND FOR ARRANGEMENTS BETWEEN INTERNATIONAL COMPANIES AND PRODUCER COUNTRIES.

(2) TWO-TIER PRICE STRUCTURE: THE TWO-TIER PRICE STRUCTURE PRESENTS SERIOUS PROBLEMS WHICH SHOULD BE DISCUSSED THOROUGHLY IN THE DIALOGUE BETWEEN CONSUMER COUNTRIES AND THE INTERNATIONAL COMPANIES REFERRED TO ABOVE AND EVENTUALLY BETWEEN PRODUCER AND CONSUMER COUNTRIES. CONSUMER COUNTRIES MIGHT ALSO CONSULT WITH INTERNATIONAL COMPANIES ON A BUY-BACK ARRANGEMENT.

POINT III. (INFORMAL EMBASSY TRANSLATION): IN REGARD TO CONTACTS WITH THE PRODUCERS THE GROUP COULD, AFTER HAVING HEARD THE REPORT OF THE AD HOC GROUP ON PERSPECTIVES OF THE PETROLEUM MARKET:

(A) TAKE NOTE OF THE RESULT OF THE BILATERAL SOUNDINGS WHICH CERTAIN MEMBER COUNTRIES HAVE INITIATED;

(B) EXCHANGE IMPRESSIONS ON THE RESULTS OF THE OPEC MEETING AT QUITO INFO FAR AS THEY ARE KNOWN;
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(C) EVALUATE THE POSSIBILITIES OF OPENING A CONVERSATION WITH THE PRODUCING COUNTRIES AND ON WHAT SUBJECTS (SEE ECG 33). AMONG THESE SUBJECTS MIGHT BE INCLUDED THE STRUCTURE OF PRICES;

(D) DISCUSS THE PROPOSITION FORMULATED SEVERAL TIMES BY MR. YAMANI, SAUDI ARABIAN PETROLEUM MINISTER,

ENVISAGING THE ORGANIZATION OF A RESTRICTED MEETING TO
INCLUDE REPRESENTATIVES OF THE THREE PRINCIPAL
CATEGORIES OF COUNTRIES: PRODUCERS, INDUSTRIALIZED
CONSUMERS, AND THE DEVELOPING COUNTRIES MOST AFFECTED
BY THE ENERGY CRISIS. THIS PROPOSAL WAS INCLUDED IN A
PROPOSED RESOLUTION OF THE UNGA (A/AC.166/L/46) ON
APRIL 29, 1974, WHICH SPECIFICALLY ENVISAGED QUOTE
THREE GROUPS REPRESENTING A CROSS-SECTION OF MEMBER
STATES BE ESTABLISHED ON A MINISTERIAL LEVEL, WITH A
VIEW TO REACHING CONCRETE AGREEMENT ON CERTAIN PROBLEMS

(I) A GROUP OF MINISTERS TO DEAL WITH ENERGY; UNQUOTE.
THE PROJECT WILL NO DOUBT BE REVIEWED AT THE JULY SESSION
OF ECOSOC.

(E) ENGAGE IN AN EXCHANGE OF VIEWS ON THE QUESTION OF
BILATERAL AGREEMENTS AND THE MANNER OF HARMONIZING THEM. FIRESTONE

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